

**AGF PREFERRED
INCOME FUND**

**ANNUAL REPORT
1985**



The AGF Preferred Income Fund completed its first full year of operation in December 1985 with assets rapidly approaching \$300 million. During the year the Fund managed an average annual distribution rate of 8.31% coupled with a 5% increase in the net asset value.

Due to its continued growth, the Fund was able to participate actively in most of the high quality new issues that came to market during the year, as well as adding to its original core holdings via the secondary market.

The portfolio current composition is illustrated graphically on the facing page.

Despite the possibility of short term increases in interest rates, we feel the general trend will be downward for the coming year. Hence we believe preferred yields will continue to drop somewhat, though at a slower pace than bond yields. The Preferred Income Fund should therefore be able to maintain a payout in the 7 $\frac{3}{4}$ % to 8% range for 1986.

Statement of Assets and Liabilities

	December 31	
	<u>1985</u>	<u>1984</u>
Assets		
Investments at market value (average cost — 1985 \$279,740,221; 1984 \$77,388,633).....	\$292,876,193	\$ 79,209,434
Cash and short-term deposits	—	5,552,291
Receivable for units of the Fund subscribed for but unissued	12,506,086	4,296,137
Receivable for security sales	5,819,724	—
Dividends and interest receivable.....	2,449,000	680,228
	<u>313,651,003</u>	<u>89,738,090</u>
Liabilities		
Bank overdraft	5,022,335	—
Accrued expenses	170,569	58,666
Payable for units of the Fund redeemed.....	3,013,675	88,302
Payable for security purchases.....	11,345,425	903,700
Distributions payable to unitholders	2,673,689	647,597
	<u>22,225,693</u>	<u>1,698,265</u>
NET ASSETS REPRESENTING UNITHOLDERS' EQUITY.....	<u>\$291,425,310</u>	<u>\$ 88,039,825</u>
28,010,954 units (1984 — 8,915,013 units)(Note 3)		
NET ASSET VALUE PER UNIT	<u>\$ 10.40</u>	<u>\$ 9.88</u>

Approved by the Board of Directors of A.G.F. Management Limited

Curfolding, Director*M. Nastich*, Director

Statement of Income

	Year ended <u>December 31, 1985</u>	Period from April 10, 1984 to December 31, 1984
Income:		
Dividends	<u>\$16,438,615</u>	<u>\$ 2,089,263</u>
Interest	<u>264,013</u>	<u>1,038,336</u>
	<u>16,702,628</u>	<u>3,127,599</u>
Expenses: (Notes 6 and 7)		
Manager's fee	869,647	152,375
Audit fees	11,600	7,500
Custodian fees and bank charges	12,823	7,025
Interest	92,672	2,483
Legal fees	250	1,553
Unitholder servicing	217,097	41,085
Annual and quarterly reports	15,031	—
Other	<u>1,484</u>	<u>736</u>
	<u>1,220,604</u>	<u>212,757</u>
Net income for the period	<u>\$15,482,024</u>	<u>\$ 2,914,842</u>

**Statements of Change in Net Assets and
Realized Loss on Sale of Investments**

Year ended <u>December 31, 1985</u>	Period from April 10, 1984 to December 31, 1984
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Change in Net Assets

Net assets at beginning of period.....	\$ 88,039,825	\$ —
Proceeds from sale of units and reinvestment of distributions (Note 3).....	214,394,577	87,139,449
Net income for the period	<u>15,482,024</u>	<u>2,914,842</u>
Net unrealized appreciation of investments	<u>11,315,171</u>	<u>1,820,801</u>
	<u>329,231,597</u>	<u>91,875,092</u>
 Less:		
Cost of units redeemed (Note 3)	19,838,467	848,007
Net realized loss on sale of investments	<u>2,485,796</u>	<u>72,418</u>
Distributions to unitholders (Note 5)	<u>15,482,024</u>	<u>2,914,842</u>
	<u>37,806,287</u>	<u>3,835,267</u>
Net assets at end of period.....	<u>\$291,425,310</u>	<u>\$ 88,039,825</u>
Net asset value per unit	<u>\$ 10.40</u>	<u>\$ 9.88</u>

Realized Loss on Sale of Investments

Proceeds from sale of investments.....	\$ 90,513,708	\$ 31,857,707
Cost of investments at beginning of period	77,388,633	—
Cost of investments purchased during the period	<u>295,351,092</u>	<u>109,318,758</u>
	<u>372,739,725</u>	<u>109,318,758</u>
Cost of investments at end of period	<u>279,740,221</u>	<u>77,388,633</u>
Cost of investments sold during the period	<u>92,999,504</u>	<u>31,930,125</u>
Net realized loss on sale of investments	<u>\$ 2,485,796</u>	<u>\$ 72,418</u>

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Notes to Financial Statements December 31, 1985

1. Summary of accounting policies:

Valuation of investments —

The market value of the Fund's investments is determined as follows:

- (a) Securities listed upon a recognized public stock exchange are valued at their closing sale price on the valuation date. Securities not traded on that date are valued at a price between the closing recorded asked and bid prices.
- (b) Securities not listed upon any exchange are valued in the same manner based upon any available public quotation in common use or at a price estimated to be the true value thereof on such basis and in such manner as may be approved by the Manager.

Investment transactions and income —

Investment transactions are accounted for on the trade date. Interest income is accrued daily and dividend income is recognized on the ex-dividend date. Realized gains and losses from investment transactions are calculated on an average cost basis.

Translation of foreign currency —

Foreign currency amounts are expressed in Canadian dollars as follows:

- (a) Market value of investments and other assets at the rate of exchange at the end of the year.
- (b) Purchases and sales of investments and dividend and interest income at the rate of exchange prevailing on the respective dates of such transactions.

2. Commencement of Fund:

AGF Preferred Income Fund was created by a Declaration of Trust on April 10, 1984 and commenced operations on July 5, 1984.

3. Unitholders' equity:

- (a) Unitholders' equity includes the amounts representing realized gains (losses) on sale of investments and unrealized appreciation (depreciation) of investments.
- (b) Units of the Fund, which are redeemable at the option of the holder in accordance with the provisions of the Declaration of Trust, do not have any nominal or par value and the number of units which may be issued is unlimited. The following units were allotted and redeemed during the periods indicated:

	Year ended <u>December 31, 1985</u>	Period from April 10, 1984 to December 31, 1984
Units sold and distributions reinvested (including units subscribed for but unissued at end of year) —		
Number of units	<u>21,041,495</u>	<u>9,001,715</u>
Proceeds	<u>\$214,394,577</u>	<u>\$ 87,139,449</u>
Units redeemed —		
Number of units	<u>1,945,554</u>	<u>86,702</u>
Redemption cost	<u>\$ 19,838,467</u>	<u>\$ 848,007</u>

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4. Net income per unit:

The following is the net income per unit for the periods indicated based on the average number of units outstanding during the period:

	Year ended December 31, 1985	Period from April 10, 1984 to December 31, 1984
Net income per unit	<u>86.52¢</u>	<u>43.45¢</u>

5. Distributions:

Distributions have been paid or credited to unitholders in accordance with the terms of the Declaration of Trust. All of the net income and sufficient of the net taxable capital gains are payable to unitholders in the calendar year so that no income tax is payable by the Fund.

Distributions for any year are made first out of net income, then to the extent necessary out of available realized gain on investments, and, if the two preceding sources of funds are exhausted, then out of contributed capital. This procedure conforms with the terms of the Declaration of Trust.

The following are the distributions per unit paid or credited to unitholders during the periods indicated:

	Year ended December 31, 1985	Period from April 10, 1984 to December 31, 1984
Distributions per unit:		
From net income	84.196¢	38.541¢
From capital contributions.....	—	5.090
	<u>84.196¢</u>	<u>43.631¢</u>

During 1984 amounts distributed to unitholders from capital contributions by unitholders aggregated \$451,821.

6. Expense ratio:

The following is the ratio of all expenses of the Fund (other than brokerage commissions on securities transactions and all taxes) expressed as a percentage of the average of the net assets as calculated for the purpose of the issue of units of the Fund as at each valuation date of the Fund, calculated on an annual basis.

	Year ended December 31, 1985	Period from April 10, 1984 to December 31, 1984
Expense ratio	0.70%	0.68%

7. Manager's fee:

A.G.F. Management Limited is the Manager of the Fund and provides all services and facilities that are necessary in order for the Fund to carry on its business. In particular, the Manager provides investment management, advisor and administration services. The Manager pays all expenses of the Fund other than audit and legal fees, custodian fees and bank charges, unit-holder servicing expenses, brokerage on securities transactions and all taxes.

As compensation, the Manager receives a fee, payable monthly in arrears, at the annual rate of 1/2 of 1% of the average daily net asset value of the Fund.

AGF PREFERRED INCOME FUND

8. Brokerage commissions on securities transactions:

	Year ended <u>December 31, 1985</u>	Period from April 10, 1984 to December 31, 1984
Commissions on purchases and sales of securities.....	<u>\$400,973</u>	<u>\$162,842</u>

9. Statement of portfolio transactions:

A statement of portfolio transactions (unaudited) for the period ended December 31, 1985 will be provided, without charge, by writing to:

A.G.F. Management Limited
50th Floor, Toronto Dominion Bank Tower
Toronto Dominion Centre
Toronto, Ontario
M5K 1E9

Auditors' Report

To the Unitholders of
AGF PREFERRED INCOME FUND

We have examined the statement of assets and liabilities and the statement of investment portfolio of AGF Preferred Income Fund as at December 31, 1985, the statement of assets and liabilities as at December 31, 1984 and the statements of income, change in net assets and realized loss on sale of investments for the year ended December 31, 1985 and for the period from inception of the Fund on April 10, 1984 to December 31, 1984. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Fund as at December 31, 1985 and December 31, 1984, its investment portfolio as at December 31, 1985 and the results of its operations and the change in its net assets for the year ended December 31, 1985 and for the period from inception of the Fund on April 10, 1984 to December 31, 1984 in accordance with generally accepted accounting principles applied on a consistent basis.

Toronto, Ontario
March 4th, 1986

Price Waterhouse
Chartered Accountants

Statement Of Investment Portfolio
December 31, 1985

<u>No. of Shares</u>		<u>Average Cost</u>	<u>Market Value</u>
PREFERRED STOCKS (100.5%)			
140,000 (U.S.)	Aluminum Company of Canada, Limited floating rate cum. red. pfd. "D"	\$ 4,644,150	\$ 4,891,250
110,000	Atlantic Shopping Centres Limited 9 1/4% cum. red. ret. pfd. Series 1	2,755,043	3,107,500
115,500	Bank of Montreal \$2.50 cum. red. pfd. "A" Series 2	3,147,414	3,190,688
50,200	The Bank of Nova Scotia floating rate cum. red. pfd. Series 1	1,269,710	1,324,025
118,700	Bentall Capital Corporation 9% cum. red. ret. 1st pfd. Series 1	2,978,895	3,160,387
35,000	British Columbia Telephone Company 7.04% cum. red. pfd.	715,575	787,500
174,300	British Columbia Telephone Company 7.40% cum. red. pfd.	3,690,076	3,907,806
130,000	British Columbia Telephone Company 7.65% cum. red. pfd.	2,842,200	3,013,400
835,900	The Cadillac Fairview Corporation Limited 8.50% cum. red. pfd. "A"	7,814,966	8,359,000
400,000	Calgary Centre Holdings Ltd. 8 1/8% cum. red. ret. 1st pfd. Series 1	10,000,000	10,900,000
110,000	Campeau Corporation 8% cum. red. ret. pfd. "B"	2,612,500	2,736,250
100,000	Canadian Utilities Limited 7.30% cum. red. 2nd pfd. "C"	2,200,000	2,425,000
363,000	Canadian Utilities Limited 7.80% cum. red. ret. 2nd pfd. "K"	9,075,000	9,438,000
25,000	Consolidated-Bathurst Inc. \$5.75 cum. red. ret. 2nd pfd. "A"	1,409,500	1,400,000
200,000	Consolidated-Bathurst Inc. 8.16% fixed/floating rate cum. red. 2nd pfd. "C"	5,000,000	5,050,000
230,200	Crown Life Insurance Company \$2.28 cum. red. ret. pfd. "A" Class I	5,785,471	6,186,625
228,800	Denison Mines Limited 9 3/4% cum. red. ret. pfd. "A"	5,833,092	5,948,800
109,400	Dofasco Inc. \$2.35 cum. red. pfd. "B" 1980 Series	2,807,148	2,748,675
50,000	Fidinam Properties Inc. 9 3/4% cum. red. ret. 1st pfd. Series 1	1,250,000	1,381,250

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<u>No. of Shares</u>		<u>Average Cost</u>	<u>Market Value</u>
200,000	The Great-West Life Assurance Company 7.70% cum. red. ret. pfd. "A"	\$ 5,016,000	\$ 5,250,000
207,000	Hammerson Canada Inc. 9.00% cum. red. ret. pfd. "B"	5,175,000	5,511,375
318,400	Hammerson Canada Inc. 9.125% cum. red. ret. pfd. "A"	8,112,663	8,557,000
110,000	ITT Canada Limited 7.20% cum. red. ret. 1st pfd. Series 2	2,750,000	2,750,000
280,000	ITT Canada Limited 9% cum. red. ret. 1st pfd. Series 1	7,000,000	7,735,000
100,000	The Imperial Life Assurance Company of Canada \$2.25 cum. red. ret. 2nd pfd. Series II	2,500,000	2,687,500
280,000	JDS Capital Limited \$2.21875 cum. red. ret. 1st pfd. "A"	7,000,000	7,560,000
400,000	Lonvest Corporation 7.88% cum. red. fixed/floating rate Class I, pfd. "A"	10,000,000	9,900,000
270,000	Manitoba Properties Inc. 9 1/4 % cum. red. ret. pfd. "A"	7,143,662	7,458,750
437,000	Manufacturers Life Capital Corporation 7.25% cum. red. ret. 1st pfd. "A"	10,925,000	11,034,250
102,678	Maritime Telegraph and Telephone Company, Limited 9.40% cum. red. pfd.	1,094,547	1,090,954
76,190	The New Brunswick Telephone Company, Limited \$1.85 cum. red. pfd.	1,605,704	1,628,561
104,600	Northern Telecom Limited floating rate cum. red. ret. pfd. "A" Series 3.....	2,633,146	2,732,675
128,500	NOVA, AN ALBERTA CORPORATION 7.60% cum. red. 1st pfd.	2,668,709	3,132,188
181,680	NOVA, AN ALBERTA CORPORATION 9.75% cum. red. 1st pfd.	4,575,453	4,678,260
163,310	NOVA, AN ALBERTA CORPORATION 9.76% cum. red. 1st pfd.	4,121,683	4,184,819
299,700	Pacific Western Airlines Corporation \$2.4375 cum. red. ret. 1st pfd. "A"	7,481,528	8,091,900
144,000	Presidio Developments Ltd. 9.25% cum. ret. red. pfd. "A"	3,600,000	3,852,000
60,000 (U.S.)	Ranger Oil Limited 9.25% cum. red. ret. pfd. "A"	2,063,600	2,159,138
334,500	The Royal Bank of Canada \$1.88 cum. red. 1st pfd. "A"	6,736,265	8,153,437
10,000	Royal Trustco Limited \$8 cum. red. senior pfd.	977,500	1,010,000
400,000	Royal Trustco Limited 8.5% cum. red. pfd. "G"	10,000,000	10,450,000

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<u>No. of Shares</u>		<u>Average Cost</u>	<u>Market Value</u>
551,800	The Toronto-Dominion Bank \$2.375 1st cum. red. pfd. "A"	\$ 14,058,366	\$ 14,829,625
57,000	TransAlta Utilities Corporation \$2.36 First Series cum. red. 2nd pfd.	1,490,605	1,496,250
334,000	TransAlta Utilities Corporation 7.20% red. 1st pfd.	8,350,000	8,350,000
19,000	TransAlta Utilities Corporation 7.30% Twelfth Series cum. red. 1st pfd.	1,684,350	1,733,750
20,000	TransAlta Utilities Corporation 7.44% Thirteenth Series cum. red. 1st pfd.	1,734,000	1,800,000
37,600	TransAlta Utilities Corporation 8.64% Fifteenth Series cum. red. 1st pfd.	3,834,240	3,882,200
19,100	TransAlta Utilities Corporation 9 3/4 % Ninth Series cum. red. 1st pfd.	1,971,120	1,981,625
24,592	TransAlta Utilities Corporation 10% Seventh Series cum. red. 1st pfd.	2,493,061	2,557,568
105,000	TransCanada PipeLines Limited 7.80% cum. red. ret. 1st pfd. Series I.....	5,250,000	5,394,375
41,500	TransCanada PipeLines Limited 8.70% cum. red. ret. 1st pfd. "H"	2,075,000	2,199,500
190,000	Trilon Financial Corporation floating rate Class I pfd. "A"	4,785,625	4,702,500
410,000	Trilon Financial Corporation 8% cum. red. fixed/floating rate Class II pfd. Series 3.....	10,250,000	10,198,750
178,000	Trizec Corporation Ltd. variable rate senior pfd. "B" Series 3.....	1,806,700	1,780,000
221,400	ULS Capital Corporation \$2.25 cum. red. ret. fixed/floating rate 1st pfd. "A"	5,536,823	5,950,125
379,400	Ultramar Capital Corporation 8.75% cum. red. ret. 1st pfd. Series 1	9,951,856	10,196,375
439,000	U.S. Steel Canada Inc. 9% cum. red. ret. pfd. Series 1.....	10,975,000	11,743,250
140,000	Westcoast Transmission Company Limited 7.68% cum. red. ret. 1st pfd. Series 1	3,500,000	3,535,000
	Miscellaneous preferred stocks*	982,275	981,337
	TOTAL PORTFOLIO (100.5%)	\$279,740,221	\$292,876,193

* Under accumulation/disposition

NOTE: Percentages shown relate investments at market value to total net assets of the Fund.

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**AGF PREFERRED
INCOME FUND**

**ANNUAL REPORT
1985**



THE AGF COMPANIES
50th Floor, T-D Bank Tower
Toronto, Ontario M5K 1E9

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AGF PREFERRED INCOME FUND

STATEMENT OF INVESTMENT PORTFOLIO, AS AT MARCH 31, 1986 (unaudited)

CBRS Rating	No. of Shares	Average Cost	Market Value	CBRS Rating	No. of Shares	Average Cost	Market Value
FLOATING PREFERRED STOCKS (3.3%)							
P1	50,200	The Bank of Nova Scotia floating rate cum. red. pfd. Series 1	\$ 1,269,710	\$ 1,242,450	P1	115,500	STRAIGHT PREFERRED STOCKS (46.9%)
P1	104,600	Northern Telecom Limited floating rate cum. red. ret. pfd. "A" Series 3	2,633,146	2,693,450	P2	35,000	Bank of Montreal \$ 2.50 cum. red. pfd. "A" Series 2
P1	190,000	Trilon Financial Corporation floating rate Class I pfd. "A"	4,785,625	4,488,750	P2	194,300	British Columbia Telephone Company 7.04% cum. red. pfd.
P1	178,000	Trizec Corporation Ltd. variable rate senior pfd. "B" Series 3	1,806,700	1,780,000	P2	162,000	British Columbia Telephone Company 7.40% cum. red. pfd.
			10,495,181	10,204,650	N/R	1,222,700	British Columbia Telephone Company 7.65% cum. red. pfd.
					P2	73,200	The Cadillac Fairview Corporation Limited 8.50% cum. red. pfd. "A"
							Canada Trustco Mortgage Company 8% pfd.
							1,459,242 1,445,700
RETRACTABLE PREFERRED STOCKS (45.9%)							
P1	110,000	Atlantic Shopping Centres Limited 9 1/4% cum. red. ret. pfd. Series 1	2,755,043	3,066,250	P1	100,000	Canadian Utilities Limited 7.30% cum. red. 2nd pfd. "C"
P1	118,700	Bentall Capital Corporation 9% cum. red. ret. 1st pfd. Series 1	2,978,895	3,160,388	P1	194,500	Canadian Utilities Limited 7.70% cum. red. 2nd pfd.
N/R	95,000	Campeau Corporation 8% cum. red. ret. pfd. "B"	2,256,250	2,256,250	P2	200,000	Consolidated-Bathurst Inc. 8.16% Fixed/Floating rate cum. red. 2nd pfd. "C"
P2	57,800	Canada Northwest Energy Limited 9% cum. red. ret. pfd. "A"	1,472,127	1,408,875	P2	245,700	Domtar Inc. 8.40% cum. red. pfd. "B"
P1	363,000	Canadian Utilities Limited 7.80% cum. red. ret. 2nd pfd. "K"	9,075,000	9,438,000	P1	400,000	Lonwest Corporation 7.88% cum. red. fixed/floating rate Class I, pfd. "A"
P2	25,000	Consolidated-Bathurst Inc. \$5.75 cum. red. ret. 2nd pfd. "A"	1,409,500	1,362,500	N/R	56,011	The New Brunswick Telephone Company, Limited \$1.85 cum. red. pfd.
P2	230,200	Crown Life Insurance Company \$2.28 cum. red. ret. pfd. "A" Class I	5,785,471	6,157,850			1,180,432 1,176,231
P2	208,800	Denison Mines Limited 9 1/4% cum. red. ret. pfd. "A"	5,323,206	4,854,600	P2	128,500	NOVA, AN ALBERTA CORPORATION 7.60% cum. red. 1st pfd.
P1	50,000	Fidinam Properties Inc. 9 1/4% cum. red. ret. 1st pfd. Series 1	1,250,000	1,375,000	P2	181,680	NOVA, AN ALBERTA CORPORATION 9.75% cum. red. 1st pfd.
P1	200,000	The Great-West Life Assurance Company 7.70% cum. red. ret. pfd. "A"	5,016,000	5,225,000	P2	163,310	NOVA, AN ALBERTA CORPORATION 9.76% cum. red. 1st pfd.
P2	207,000	Hammerson Canada Inc. 9.00% cum. red. ret. pfd. "B"	5,175,000	5,459,625	P1	190,000	Power Corporation of Canada 8% cum. red. 1st pfd. 1986 Series
P2	318,400	Hammerson Canada Inc. 9.125% cum. red. ret. pfd. "A"	8,112,663	8,437,600	P1	125,000	The Royal Bank of Canada \$1.45 cum. red. conv. 1st pfd. "B"
P2	110,000	ITT Canada Limited 7.20% cum. red. ret. 1st pfd. Series 2	2,750,000	2,763,750	P1	364,100	The Royal Bank of Canada \$1.88 cum. red. 1st pfd. "A"
P2	280,000	ITT Canada Limited 9% cum. red. ret. 1st pfd. Series 1	7,000,000	7,595,000	P2	10,000	Royal Trustco Limited \$8 cum. red. senior pfd.
P1	100,000	The Imperial Life Assurance Company of Canada \$2.25 cum. red. ret. 2nd pfd. Series II	2,500,000	2,612,500	P1	400,000	Royal Trustco Limited 8.5% cum. red. pfd. "G"
P1	280,000	JDS Capital Limited \$2.21875 cum. red. ret. 1st pfd. "A"	7,000,000	7,455,000	P1	551,800	The Toronto-Dominion Bank \$2.375 1st cum. red. pfd. "A"
P1	270,000	Manitoba Properties Inc. 9 1/4% cum. red. ret. pfd. "A"	7,143,662	7,357,500	P1	29,000	TransAlta Utilities Corporation 7.30% Twelfth Series cum. red. 1st pfd.
P1	437,000	Manufacturers Life Capital Corporation 7.25% cum. red. ret. 1st pfd. "A"	10,925,000	11,088,875	P1	39,900	TransAlta Utilities Corporation 7.44% Thirteenth Series cum. red. 1st pfd.
P2	182,600	Norcen Energy Resources Limited 8.12% cum. red. ret. 2nd pfd. "A"	4,565,000	4,633,475	P1	38,400	TransAlta Utilities Corporation 7.70% cum. red. 1st pfd.
P3	299,700	Pacific Western Airlines Corporation \$2.4375 cum. red. ret. 1st pfd. "A"	7,481,528	7,979,513	P1	37,600	TransAlta Utilities Corporation 8.64% Fifteenth Series cum. red. 1st pfd.
P1	144,000	Presidio Developments Ltd. 9.25% cum. red. ret. pfd. "A"	3,600,000	3,744,000	P1	410,000	Trilon Financial Corporation 8% cum. red. fixed/floating rate Class II pfd. Series 3
P2	60,000	Ranger Oil Limited 9.25% cum. red. ret. pfd. "A"	2,063,600	1,970,193			3,834,240 3,816,400
P1	334,000	TransAlta Utilities Corporation 7.20% red. ret. 1st pfd.	8,350,000	8,475,250			10,250,000 9,635,000
P1	221,400	ULS Capital Corporation \$2.25 cum. red. ret. fixed/floating rate 1st pfd. "A"	5,536,823	5,811,750			133,574,152 135,144,387
P1	379,400	Ultramar Capital Corporation 8.75% cum. red. ret. 1st pfd. Series I	9,951,856	9,911,825			521,130 478,500
P2	447,000	U.S. Steel Canada Inc. 9% cum. red. ret. pfd. Series I	11,184,800	11,789,625			\$ 288,751,887 \$ 294,770,231
P2	140,000	Westcoast Transmission Company Limited 7.68% cum. red. ret. 1st pfd. Series I	3,500,000	3,552,500			
			144,161,424	148,942,694			
SUMMARY OF NET ASSETS (unaudited)							
							Total portfolio (96.3%)
							Net current assets (3.7%)
							Total net assets (100%)
							Net asset value per unit

*Under accumulation/disposition

Note: Percentages shown relate investments at market value to total net assets of the Fund.

PORTFOLIO UPDATE

OUTLOOK FOR PREFERREDS POSITIVE FOR BALANCE OF 1986

The first quarter of 1986 has been a standstill period for preferred share investors. While the bond market has been very strong, the new provisions for the Dividend Tax Credit in the Federal budget affected the market for preferred shares.

Both American and Canadian bond markets have performed exceptionally well of late; U.S. interest rates have declined from 9-1/4% in February to 7-1/2% currently. In Canada long term interest rates have moved more slowly reflecting the high short term rates used to protect the value of the dollar. With lower oil prices, a subdued inflation rate and more central bank accommodation, we feel that interest rates will continue their downward trend, boding well for preferred share prices.

Although the changes to the tax treatment of dividends proposed by the budget affected the net asset value of the Preferred Fund, the capital loss of 2.6% has been regained in the past month. The fund continues to pay out over 8% in dividend income and in comparison to long bond yields of 8.90% (9-1/2 October 2001) the relative after-tax attractiveness of the fund is quite obvious. We therefore look forward with confidence to the performance of the fund for the remainder of 1986.

